

November 7, 2003

The Honorable Mayor and Members
of the City Council
City of Riverview
14100 Civic Park Drive
Riverview, MI 48192

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Riverview for the year ended June 30, 2003. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2003, General Fund expenditures exceeded revenues by approximately \$432,000 taking into account transfers from other funds. Fund balance at June 30, 2003 amounted to approximately \$825,000. Of this amount, \$8,000 is reserved for inventory, \$302,000 is designated for subsequent year's budget, \$198,000 is designated for pending tax tribunals and \$317,000 is undesignated. The undesignated portion represents approximately 3.6 percent of budgeted 2003-2004 expenditures, which is slightly below the range typically expected by rating agencies.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. It is important that the City maintains an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

PERSONAL PROPERTY TAX

As you may be aware, the State Tax Commission has revised the personal property tax tables for the transmission and distributions property for utility companies. If utilized, the modified tables would have caused significant reductions to the assessed taxable value of these properties. The changes were effective in 2000, however, the City, like many other communities, has elected to continue to assess these properties using the previous tables. This issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the

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PERSONAL PROPERTY TAX (CONTINUED)

constitutionality of the new utility personal property tax tables. The use of the new tables was upheld in the lawsuit and the local units of government have appealed this decision.

The utility companies are attempting to retroactively apply the new tables to the 1997 through 2002 tax years and obtain refunds from local taxing authorities. The amount of personal property taxes that are subject to the claims is approximately \$300,000. The resolution of the refund claims will likewise be dependent on the outcome of the lawsuit appeal. The City has designated fund balance in the General Fund for the amount of the potential refunds relating to the General Fund in the event an unfavorable outcome. We will continue to keep the City updated as developments occur.

COMPUTER SECURITY ISSUES

As the City has become more reliant on computer technology, it is increasingly apparent that attention needs to be given to the security of computer systems. While the private sector has been forced to devote significant resources to this area for several years now, organizations in the public sector are beginning to see the need for similar attention. Items for consideration include the ability of employees to access or manipulate data or programs inappropriately, firewalls for Internet access points, and physical security/disaster recovery plans.

The City's data assets are such that their loss or impaired usage can have devastating consequences. As a result, we recommend that the City assess its computer systems and network environments and develop strategies to ensure that risks associated with down time, hacker intrusions and virus attacks are minimized in a secured environment. We believe it is prudent to assess your risk and implement security improvements to avoid the negative implications. Plante & Moran, in conjunction with the Michigan Municipal League, has developed a low-cost computer security review tailored for local units of government. We would be happy to discuss in more detail the benefits of such a review.

REVENUE SHARING

As you are aware, revenue sharing payments for the State's fiscal year ended September 30, 2003 were reduced by 3.5 percent through a December 2002 Executive Order. The budget for the State's fiscal year ended September 30, 2004 includes an *additional* 3 percent reduction in revenue sharing payments from the estimated payments for the State's 2003 fiscal year. These cuts are compounded by reductions that result when sales tax collections are less than what is included in the State's projections. As an additional word of caution, the State's most recent revenue estimating conference indicated that the sales tax collection estimates used to generate the 2004 budget may not be achieved unless there is a significant boost in the State's economy. It is uncertain whether additional cuts to revenue sharing payments will be made to the proposed 2004 budget.

We recommend that the City continue to evaluate the impact of the revenue sharing reductions on the 2003-2004 budget. Updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the City having to have an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability would also be disclosed. Lastly, the City would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30 year period.

While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. It is anticipated that these changes will be effective 2008.

PENSION SYSTEM FUNDING

While reviewing the most recent actuarial valuation, we noticed that the annual pension cost increased from \$43,016 in 2002 to \$433,341 in 2003. The anticipated pension cost for 2004 is approximately \$800,000. The City's 2003 contribution as a percentage of payroll has increased ten fold and has not been this high since 1990. As indicated above, it is expected to almost double again for 2004. However, as these costs are increasing, the percent of the retirement system liabilities funded has been decreasing. The plan was 109.3 percent funded in 2002 and is 101.2 percent funded in 2003.

The increase in costs and decrease in plan funding level could be the result of many factors, including the high investment results achieved in the early and mid 1990's which provided some advance funding credits, which have now been fully utilized, and the very poor investment results of the late 1990's through now. Additionally, in determining the funding progress, the actuary uses a smoothing methodology for valuing assets. As such, the market value losses experienced over the past several years are not fully reflected in the computation of the employer's contribution. At June 30, 2002 (the date of the most recent actuarial valuation), the retirement system net assets at market value were significantly lower than the asset values used by the actuary in determining funding progress.

Regardless of the causes, it appears that the City will have a significantly larger pension contribution required in the next few years. It may be an appropriate time to review the assumptions with the actuary to ensure that the current assumptions remain appropriate given the current economic situation as well as the specific assumptions related to Riverview's wage increases and inflation, etc.

NEW HOMESTEAD AUDIT PROGRAM

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

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GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here. You will notice a very different look to the financial statements. Preparing for this new reporting model has required a significant amount of effort by the City's finance department.

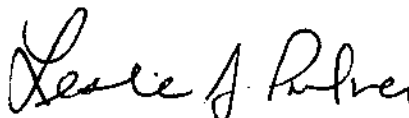
Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the City's overall financial position and results of operations.
- Government-wide Financial Statements: These additional statements adjust the **fund-based** statements into a combined, **city wide full-accrual** format. This allows a financial statement reader to see the City from a long-term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets as well as long-term debt as part of the City's financial picture.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the final amended budget, but also as compared to the original budget for the General Fund and Major Special Revenue Funds. This may cause readers of the financial report to inquire as to the reasons for significant changes between the original and final amended budget.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



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Denise A. Simon